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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 97-005-E - ORDER NO. 97-469
JUNE 10, 1997

IN RE: Annual Review of Base Rates for Fuel) ORDER
Costs of Duke Power Company.) APPROVING
) BASE RATES FOR
) FUEL COSTS

On May 21, 1997, the Public Service Commission of South Carolina (the Commission) held a public hearing on the issue of the recovery of the costs of fuel used in electric generation by Duke Power Company (Duke or the Company) to provide service to its South Carolina retail customers. The procedure followed by the Commission is set forth in S.C. Code Ann. Section 58-27-865 (Supp. 1996). The review in this case uses the actual fuel revenues and expenses from April 1996 through March 1997 to determine an appropriate fuel factor for the period of June 1997 through May 1998.

At the public hearing, William F. Austin, Esquire and Mary Lynne Grigg, Esquire, represented the Company; Hana Pokorna-Williamson, Esquire, represented the Intervenor, the Consumer Advocate of South Carolina (the Consumer Advocate); and F. David Butler, General Counsel, represented the Commission Staff. The record before the Commission consists of the testimony of two witnesses on behalf of the Company, two witnesses on behalf

of the Commission Staff, and eight hearing exhibits.

Based upon the evidence of the record, the Commission makes the following findings of fact and conclusions of law:

FINDINGS OF FACT

1. The record of this proceeding indicates that for the period from April 1996 through March 1997, the Company's actual total fuel costs for its electric operations amounted to \$779,843,022. Hearing Exhibit No. 7, Accounting Exhibit E.

2. Staff reviewed and compiled a percentage generation mix statistic sheet for the Company's fossil, nuclear and hydro-electric plants for April 1996 through March 1997. The fossil generation ranged from a high of 78% in November 1996 to a low of 45% in March 1997. The nuclear generation ranged from a high of 51% in March 1997 to a low of 21% in November 1996. The percentage of generation by hydro ranged from 1% to 4% for this period. Hearing Exhibit No. 8; Utilities Department Exhibit No. 3.

3. During the April 1996 through March 1997 period, coal suppliers delivered 16,614,958.45 tons of coal. The Commission Staff's audit of the Company's actual fuel procurement activities demonstrated that the average monthly cost of coal varied from \$34.16 per ton in February 1997 to \$36.23 per ton in April 1996. Hearing Exhibit No. 7, Accounting Exhibit A.

4. Staff collected and reviewed certain generation statistics of major Company plants for the twelve months ending March 31, 1997. Hearing Exhibit No. 8, Utilities Department

Exhibit 4. The nuclear fueled Catawba Plant was lowest at 0.47 cents per kilowatt-hour. The highest amount of generation was 15,719,717 megawatt-hours produced at the nuclear fueled Catawba Plant.

5. The Commission Staff conducted an extensive review and audit of the Company's fuel purchasing practices and procedures for the subject period. The Staff's accounting witness, Jacqueline R. Cherry, testified that the Company's fuel costs were supported by the Company's books and records. Testimony of Cherry, Hearing Exhibit No. 7; Accounting Department Exhibits.

6. The Commission recognizes that the approval of the currently effective methodology for recognition of the Company's fuel costs requires the use of anticipated or projected costs of fuel. The Commission further recognizes the fact inherent in the utilization of a projected average fuel cost for the establishment of the fuel component in the Company's base rates that variations between the actual costs of fuel and projected costs of fuel would occur during the period and would likely exist at the conclusion of the period. S.C. Code Ann. Section 58-27-865 establishes a procedure whereby the difference between the base rate fuel charges and the actual fuel costs would be accounted for by booking through deferred fuel expenses with a corresponding debit or credit.

7. The record of this proceeding indicates that the comparison of the Company's fuel revenues and expenses for the period April 1996 through March 1997 produces a cumulative

under-recovery of \$13,299,613. Staff added the projected under-recovery for April 1997 of \$592,885 and the projected over-recovery for May 1997 of \$416,926 to arrive at a cumulative under-recovery of \$13,475,572. Cherry testimony at 6.

8. The Company's cumulative under-recovery as of March 1997 and as of May 1997 differs from Staff's. Staff's purchased power figures for April 1996 through August 1996, and for October 1996 through January 1997 differs from the Company's figures. Staff's figures, per Staff's Report, reflect calculation adjustments made to Purchased Power Costs for the aforementioned months, based on Staff's review of Purchased Power invoices and system operation reports. Also, the Company's corrections to Purchased Power Costs for the last fuel period are reflected in the Purchased Power Costs for April 1996 through June 1996. Staff reflected these previous corrections in the last fuel review period. Accordingly, the Commission accepts Staff's figures, and we will consider the under-recovery of \$13,475,572 along with the anticipated fuel costs for the period June 1, 1997 to May 31, 1998 for the purpose of determining the base costs for fuel in base rates effective June 1, 1997. Cherry testimony at 6 and 7.

9. The Company's projected average fuel expense for the June 1997 through May 1998 period is 1.0165 cents per kilowatt-hour. Hearing Exhibit No. 2, Stimart Exhibit 6.

10. Company witness Stimart proposes that the fuel component of 1.000 cents per kilowatt-hour be continued in base rates, effective June 1, 1997. Stimart Testimony at 10.

The exhibits of Staff witness Randy Watts show that if the base fuel component remains at 1.000 cents per kilowatt-hour for this period, it will produce an estimated under-recovery of \$3,237,513. Hearing Exhibit No. 8, Utilities Department Exhibit No. 9.

11. During the period under review, several outages occurred with the Company's nuclear plants. The Commission Staff looked at each plant outage by review of Company reports and correspondence between the Company and the Nuclear Regulatory Commission (NRC) concerning the outages which required reporting. The Staff then spent time with Company representatives to discuss each outage and the sequence of events which lead to the outage and those which dictated the duration of the outages. The Staff testified that there were no Company actions which subjected Duke's customers to incurring higher fuel costs. When the Company's net capacity factor for the period is adjusted for reasonable refueling and other outages, the resulting net capacity factor exceeds the threshold of 92.5% required by statute to presume cost minimization. The major fossil units averaged over 90% availability for the majority of the period under review. Testimony of Watts, Hearing Exhibit No. 8, Utilities Department Exhibit No. 1.

12. According to Staff witness Watts, the Adjustment for Fuel Costs Tariff should have the language deleted that states "for the succeeding six months or shorter period," since S.C. Code Ann. Section 58-27-865 (Supp. 1996) now requires a twelve-month

(annual) review period, instead of the six months (semi-annual) review period. Watts testimony at 3-4, Hearing Exhibit No. 8, Utilities Department Exhibit No. 7.

CONCLUSIONS OF LAW

1. Pursuant to S.C. Code Ann. Section 58-27-865(B)(Supp. 1996), each electrical utility must submit to the Commission its estimates of fuel costs for the next twelve (12) months. Following an investigation of these estimates, and after a public hearing, the Commission directs each electrical utility "to place in effect in its base rate an amount designed to recover, during the succeeding twelve months, the fuel costs determined by the Commission to be appropriate for that period, adjusted for the over-recovery or under-recovery from the preceding twelve-month period." Id.

2. S.C. Code Ann. Section 58-27-865(G)(Supp. 1996) requires the Commission to allow electrical utilities to recover "all their prudently incurred fuel costs... in a manner that tends to assure public confidence and minimize abrupt changes in charges to consumers."

3. As stated by the Supreme Court in Hamm v. South Carolina Public Service Commission, 291 S.C. 178, 352 S.E.2d 476, 478 (1987), Section 58-27-865(F) requires the Commission "to evaluate the conduct of the utility in making the decisions which resulted in the higher fuel costs. If the utility has acted unreasonably, and higher fuel costs are incurred as a result, the utility should not be permitted to pass along the higher fuel costs to its

customers." "[T]he rule does not require the utility to show that its conduct was free from human error; rather it must show it took reasonable steps to safeguard against error." Id. at 478, citing Virginia Electric and Power Co. v. The Division of Consumer Council, 220 Va. 930, 265 S.E.2d 697 (1980).

4. The Commission recognizes that Section 58-27-865(F) provides it with the authority to consider the electrical utility's reliability of service, its economical generation mix, the generating experience of comparable facilities, and its minimization of the total cost of providing service in determining to disallow the recovery of any fuel costs.

5. Further, S.C. Code Ann. Section 58-27-865(F)(Supp. 1996) provides that:

[t]here shall be a rebuttable presumption that an electrical utility made every reasonable effort to minimize cost associated with the operation of its nuclear generation facility or system.... if the utility achieved a net capacity factor of ninety-two and one-half percent or higher during the period under review. The calculation of the net capacity factor shall exclude reasonable outage time associated with reasonable refueling, reasonable maintenance, reasonable repair, and reasonable equipment replacement outages; the reasonable reduced power generation experienced by nuclear units as they approach a refueling outage; the reasonable reduced power generation experienced by nuclear units associated with bringing a unit back to full power after an outage; Nuclear Regulatory Commission required testing outages unless due to their unreasonable acts of the utility; outages found by the [C]ommission not to be within the reasonable control of the utility; and acts of God. The calculation also shall exclude reasonable reduced power operations resulting from the demand for electricity being less than the full power output of the utility's nuclear generation system. If a net capacity factor is below ninety-two and one-half percent after reflecting the above specified outage time, then the utility shall have the burden of

demonstrating the reasonableness of its nuclear operations during the period under review.

6. At the hearing of this matter, the Consumer Advocate made an oral motion and recommended a disallowance of some of Duke's fuel costs. This Commission has reviewed, i) the Consumer Advocate's Motion, ii) all of the evidence of record in this docket, including the Consumer Advocate's Hearing Exhibits 3, 4, 5, and 6, iii) the operating efficiencies of the Company during the review period, and iv) Staff testimony and exhibits and we find that Duke has met the test of the applicable statute, Section 58-27-865. We have reviewed each outage and the sequence of events which led to each outage and conclude that the outages were the result of reasonable maintenance and equipment repair and replacement. See testimony of Watts at 3; Stimart at 7. We find that there were no acts of management which were imprudent or which subjected Duke's customers to incurring higher fuel costs. Therefore, no disallowance of fuel costs during the review period is justified and we find that Duke took reasonable steps to safeguard against error and to minimize the total costs of providing service. See testimony of Stimart at 8-9. We find that the Company's net capacity factor for the review period, adjusted for reasonable refueling and other outages, exceeds the 92.5% threshold required by the statute. See testimony of Watts at 3.

7. After considering the directives of S.C. Code Ann. Section 58-27-865(B) and (G) which require the Commission to place in effect a base fuel cost which allows the Company to recover its

fuel costs for the next twelve months adjusted for the over-recovery or under-recovery from the preceding twelve months period in a manner which assures public confidence and minimizes abrupt changes in charges, the Commission has determined that the appropriate base fuel factor for the period June 1, 1997 through May 1998 is 1.000 cents per kilowatt-hour. The Commission finds that a 1.000 cents per kilowatt-hour fuel component will allow Duke to recover its projected fuel costs and, at the same time, prevent abrupt changes in charges to Duke's customers.

8. The language in the Adjustment for Fuel Costs tariff "for the succeeding six months or shorter period" should be deleted.

IT IS THEREFORE ORDERED THAT:

1. The base fuel factor for the period June 1997 through May 1998 is set at 1.000 cents per kilowatt-hour.

2. Duke shall file an original and ten (10) copies of the fuel rider within ten (10) days of the receipt of this Order.

3. Duke shall comply with the notice requirements set forth in S.C. Code Ann. Section 58-27-865(B) (Supp. 1996).

4. Duke shall continue to file the monthly reports as previously required.

5. Duke shall account monthly to the Commission for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit.

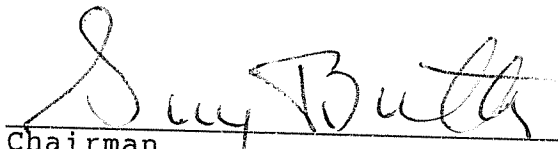
6. Duke shall submit monthly reports to the Commission of fuel costs and scheduled and unscheduled outages of generating

units with a capacity of 100 MW or greater.

7. The language in the Adjustment for Fuel Costs Tariff, "for the succeeding six (6) months or shorter period" is hereby deleted.

8. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Executive Director

(SEAL)